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SUBJECT: CHINA'S 106TH CANTON FAIR SHOWS GRADUAL EXPORT RECOVERY

REF: A) GUANGZHOU 626, B) GUANGHOU 613, C) GUANGZHOU 290, D) 2008
GUANGZHOU 648, E) 2008 GUANGZHOU 249

(U) This document is sensitive but unclassified. Please protect accordingly.

¶1. (U) Summary: Guangzhou's semi-annual Canton Fair concluded its 106th installment this week and reported that Chinese export orders continued to strengthen. However, orders have not recovered to pre-financial crisis levels, highlighting the need for China to further restructure the economy from an export orientation to one that relies more heavily on domestic demand. IPR complaints surged almost 50% this session, when compared to the 105th session, and authorities determined that a greater number of firms infringed others' IP than at either of the previous two sessions. About a dozen U.S. exhibitors occupied small booths in the International Section during the first of the fair's three phases. End Summary.

Evidence of Slow, But Continued Export Recovery

¶2. (U) Press reports announced that total attendance for the 106th China Import Export Commodities Fair (Canton Fair) had increased 13.7% by its close on November 4. A total of 188,170 visitors visited the fair, with a 16.2% increase in the value of orders placed when compared to the April 2009 session (ref C), but still down 3.4% from the 104th session in October 2008 (ref D). The total value of orders was US\$30.47 billion, which represented continued recovery for three of China's largest export markets, Europe, the Middle East and the United States, accounting for US\$9.33 billion, US\$4.26 billion and US\$4 billion, respectively. More surprising were a 98% increase in orders from Brazil, to US\$1.07 billion, and a 19.9% decline in orders from ASEAN countries, to US\$1.55 billion.

¶3. (U) Private enterprises - mostly small and medium enterprises (SMEs) - continued to dominate the majority of deals signed by Chinese exporters, accounting for US\$19.59 billion or 64% of the total, according to media reports and statistics released by Canton Fair organizers. China's State Owned enterprises (SOEs) garnered US\$5.75 billion, or approximately 17% of the total, and Foreign Invested Enterprises (FIEs) signed US\$5.23 billion, also representing approximately 17% of the deals signed. The order totals for each of these vendor categories all experienced double-digit growth at this session of the fair.

¶4. (U) Almost all product sectors attracted increased orders at the 106th fair, a marked turnaround from last spring when all but three sectors experienced declining orders. Mechanical and electrical products continued to represent the largest proportion of orders at 44.6%, followed by light industrial products, which accounted for 32.04% of the total. Orders for these two dominant sectors each increased between 15-20% at this session of the fair. However, despite the increases, media reported that orders showed signs of

softening, both with smaller individual orders and shorter-term contracts, suggesting that long-term order recovery could take more time. On the other hand, orders from "emerging" sectors like traditional Chinese medicine (TCM) and green energy products showed impressive growth at the 106th fair, but order volumes for these sectors remained limited to less than one per cent of the total at US\$36 million and US\$30 million, respectively.

Domestic Consumption, Anyone?

15. (U) Several media reports focused on the question of domestic substitution for flagging exports, but highlighted challenges to this transition. (Refs A and B described similar challenges reported by business leaders.) According to the news reports, Canton Fair exhibitors intent on shifting from export orders to domestic demand face a key structural obstacle in how they accept orders and do business - foreign buyers typically pay a 30% deposit on export orders and accept all inventory-related risks if any of the product does not sell after delivery. However, domestic buyers are unwilling to pay the order deposit and customarily have the option of returning unsold wares to domestic suppliers after a pre-agreed sales period, placing most of the inventory risk on manufacturers rather than domestic retailers who might order their products for resale. These factors led to a disappointing turnout at the "Export-for-Domestic-Sale Business Matchmaking Section" and prompted local media to conclude that most producers remain more interested in attracting export orders whenever possible.

IPR Complaints

16. (U) IPR infringement continued to be a hot topic for exhibitors, buyers and fair organizers. The 106th session saw a 21.8% increase in IPR complaints, to 710 cases, when compared with the 105th session. There were 1,113 firms involved in the complaints, an increase of 48.6%, and authorities determined that 689 of the accused firms had infringed others' IP, an increase of 43%. Among the total number of IP complaints, 68.1% involved patent issues at this session of the fair.

U.S. Exhibitors See Opportunities; Lament Absence of U.S. Pavilion

17. (U) The CG visited U.S. exhibitors' booths in the fair's International Section on opening day, October 15. About a dozen small U.S. firms, mostly from the San Francisco area, were making their debut at the fair, seeing it as an opportunity to introduce their firms to China. Pointing to adjacent Italian and Turkish pavilions that featured lavish decorations, and reportedly sponsored by those governments, U.S. exhibitors lamented the absence of an American counter-part. Representatives of one U.S. firm said this was their third year at the fair, and that, while they hoped to build their China business, it was international buyers from other regions such as Europe, Africa, and the Middle East that made participation attractive and lucrative in terms of orders.

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